

AR59

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UNDEE PETROLEUM CORP.



1996

ANNUAL REPORT

## Corporate Profile

Dundee Petroleum Corp. is a Calgary-based, junior energy company engaged in the business of exploration for and development of oil and natural gas in western Canada.

Incorporated in 1995, the Company was initiated as a junior capital pool corporation and began trading on the Alberta Stock Exchange in March, 1996 under the symbol "DPC".

Dundee completed its Major Transaction in May, 1996, which provided the Company with a solid production base and extensive land holdings consisting of approximately 16,000 gross (3,000 net) acres in southeast Saskatchewan. Dundee's producing properties are located in the Arcola, Service and Redvers areas.

Throughout 1996 Dundee continued to evolve and realize growth. The Company completed several private placement financings, and played a key role in the initiation of a high impact drilling program on its Arcola property.

With its strong asset base and talented and dedicated management team, Dundee is committed to continue to increase shareholder value through strategic acquisition, exploration and development of oil and gas reserves.

## 1996 Highlights

Year ended December 31, 1996

### Financial

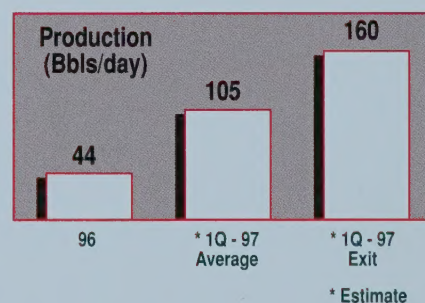
Gross Revenue	\$ 450,528
Cash Flow from Operations	\$ 63,929
per share	\$ 0.012
Net earnings	\$ 16,108
per share	\$ 0.003
Capital Expenditures	\$ 907,585
Long Term Debt	nil
Shareholders' Equity	\$ 975,452
Shares Outstanding	8,261,000

### Operating

Production	
Oil and NGL's (Bbls/day)	44
Sales Price (\$/Bbl)	27.72
Average Netback (\$/Bbl)	12.01
Reserves, Proven and Probable	
Oil and NGL's (Bbls)	500,300
Discounted at 15% before Tax	\$ 3,627,400
Land Holdings	
Total Acres	16,020
Net Acres	2,826
Net Undeveloped Acres	2,729
Undiscounted Land Value	\$ 305,672
Wells Drilled (Gross)	
Oil	2
Net	0.35

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## President's Message

1996 represented Dundee Petroleum Corp.'s first year of operations, and was marked by significant achievements, both financially and operationally. The Company successfully met its objectives of maximizing shareholder value and establishing a strong asset base which will provide for future growth. During 1996, the Company completed \$1,010,950 in equity financings. These financings provided Dundee with the capital to increase its production, through drilling, from 45 Bbls/day in January 1996 to a first quarter 1997 exit rate of 160 Bbls/day. The Company's finding and development costs were \$1.80/Bbl. These positive results have been directly reflected in the Dundee share price.

As a junior capital pool corporation, Dundee began the year by completing its initial public offering in February for net proceeds of \$230,542. This offering consisted of the sale of 2,600,000 common shares at a price of \$0.10 per share, and was in addition to the Company's \$110,000 founding share capital.

Dundee enjoyed a quick start operationally as the Company closed its Major Transaction on May 15, 1996. This transaction represented the purchase, effective January 1, 1996, of oil and gas properties in southeast Saskatchewan for a price of \$630,000 (unadjusted). The properties purchased consisted of production of approximately 45 Bbls/day and land holdings of 16,000 gross (3,000 net) acres, with four producing areas located at Arcola, Service, Redvers and Kisbey.

Subsequent to this purchase, Dundee immediately rationalized a number of the properties in the second quarter. The Kisbey property was sold for \$45,000 as it was deemed non-strategic to the Company's growth. Dundee also farmed out its 35% share of the costs (estimated at \$85,000) associated with the removal of leased equipment and the conversion of a well to water disposal on its Service property.

During the remainder of 1996, Dundee engaged in successful private placement financings intended to fund development of the Company's properties. From July to October, the Company raised a total of \$500,000 through the issuance of 2,500,000 flow through common shares at a price of \$0.20 per share. In December, the Company issued 811,000 common and flow through common shares at prices of \$0.30 and \$0.32 per share for net proceeds of \$250,950.

Equity from the Company's private placements was used to fund Dundee's participation in a four well horizontal developmental drilling program on its Arcola property. Dundee played an instrumental role in the initiation and planning of this drilling program, which saw two wells drilled by year-end and the remaining two wells drilled in January and March of 1997.

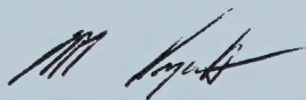
Of the four wells drilled at Arcola, three have been successful and two have had initial rates of over 350 Bbls/day. These favourable results have increased the gross production from the Arcola field from 200 Bbls/day to over 900 Bbls/day in March, 1997. Dundee's proved net reserves attributable to the Arcola property have increased from 160,000 Bbls to 354,000 Bbls.

### Outlook for 1997

Dundee's drilling success at Arcola has taken the Company to the next stage of development and growth, which will be reflected in the Company's production and profitability results for 1997. With its strong financial position and impressive asset inventory, Dundee's management team is committed to duplicating its recent accomplishments on a larger scale.

Specifically, management is currently initiating projects aimed at maximizing the value of its current asset base, including the development of the Service and Redvers areas. In addition, management is focusing its expertise on a number of natural gas exploration and development opportunities, which will result in new core areas to complement the Company's existing oil production base. Dundee is pursuing areas which offer quality reserves, high netbacks and significant upside. The Company will limit its exposure by ensuring that projects undertaken contain relatively moderate development costs.

I would like to sincerely thank all of the management, directors and shareholders of Dundee Petroleum Corp. for their invaluable contribution towards the initiation and growth of the Company over the past year.



Michael J. Kryczka,

President & Chief Executive Officer  
Dundee Petroleum Corp.



## Operations Review



### Principle Property Descriptions

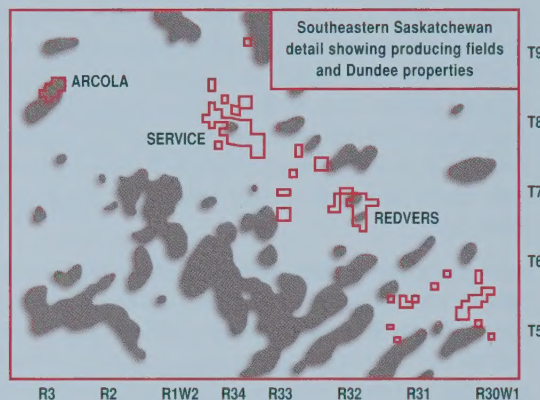
#### Arcola, Saskatchewan

The Arcola field is located in Twps. 8 & 9, Rge. 3, W2M. Dundee has a 17.5% working interest in eleven (5 horizontal, 6 vertical) oil wells in the upper and lower Alida formations and one oil well in the Tilston formation. In addition, Dundee has an identical interest in a water injection well and four suspended oil wells. Total land holdings are 1,311 gross acres (229 net acres). During 1996, the net production from the interests of Dundee averaged 35 Bbls/day.

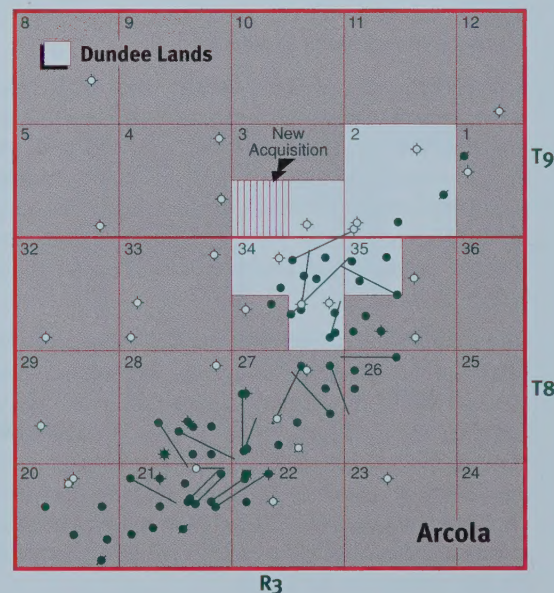
During the third and fourth quarters of 1996, Dundee participated for its 17.5 % interest in the drilling of two horizontal wells on the Arcola property. The first of these horizontal wells, Arcola 1D15-34/4C7-34-8-3 W2M, was drilled in September and placed on production in mid-October at a rate of 110 (Dundee net 19) Bbls/day. The second of these horizontal wells, Stampeder et al Arcola A16-34/C11-35-8-3 W2M, was drilled in December and placed on production in January at a rate of 420 (Dundee net 74) Bbls/day.

The third and fourth horizontal wells on the Arcola property were drilled in January and March of 1997. Testing of the third well indicated this well was not capable of commercial production rates. However, the fourth well, Arcola B4-2/D15-34-8-3 W2M, was placed on production in late March at a rate of 370 (Dundee net 65) Bbls/day, resulting in a first quarter 1997 exit production rate of approximately 150 Bbls/day net to Dundee.

In March of 1997, Dundee also participated with its Arcola partners in the drilling of an exploration well on acreage offsetting the Arcola field. The well, Arcola 3-3-9-3 W2M encountered marginal Alida pay and an attempt at completion will be made in 1997. For its participation, Dundee earned an 8.75% interest in the SW/4 Section 3-9-3 W2M.

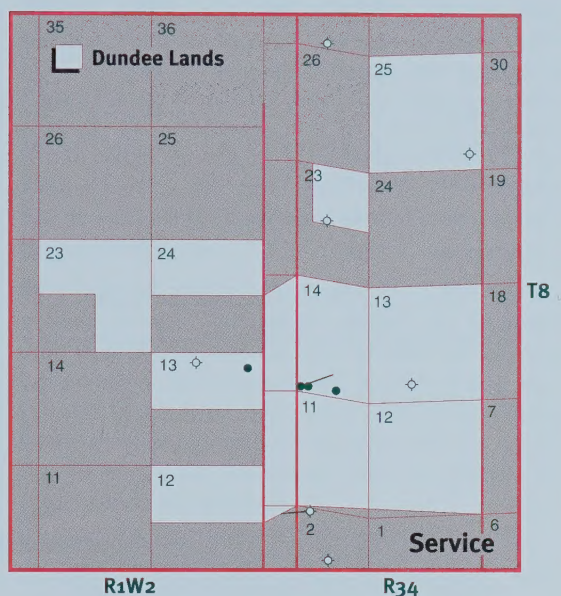


There is potential to increase the current production from the Arcola field through the application of additional horizontal wells in the Alida formation. In addition, the Company anticipates the drilling of a number of vertical wells in the Tilston formation offsetting current Tilston production from 8-2-9-3 W2M.





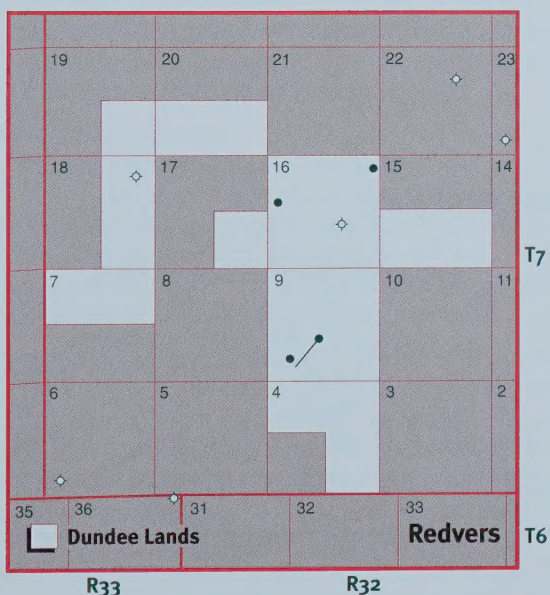
## Principle Property Descriptions (continued)



### Service, Saskatchewan

Dundee has a 10.5% before payout and a 17.5% interest after payout in 3 producing oil wells at Service in south-eastern Saskatchewan. The Service field is located in Twp. 8, Rge. 34 WIM and Twp. 8, Rge. 1 W2M. Dundee owns 4,890 gross acres (878 net acres) at Service which cover a major portion of an identified seismic anomaly. Dundee's working interest in the Service lands ranges from 10.5 to 35%. During 1996, the net production from the interests of Dundee averaged 5 Bbls/day.

The Company plans to increase the production from the Service field through the drilling of an additional three vertical wells on the property. Dundee's interest in two of these wells will be 35% and 17.5% in the third of these well locations. The Operator has indicated that the first of these wells will be drilled in the second or third quarters of 1997.



### Redvers, Saskatchewan

The Redvers field is located in Twp. 7, Rge. 32 WIM. Dundee has a 17.5% working interest in the Redvers lands and in one horizontal oil well. Dundee owns 3,018 gross acres (528 net acres) located over identified seismic anomalies in the area. During 1996, the net production from the interests of Dundee averaged 4 Bbls/day.

Based on the identified seismic anomalies, geology and the one existing horizontal well, there appears to be development potential for further wells in the area. Dundee and its partners are currently reviewing the feasibility of this project.



## Lands

Dundee holds an extensive inventory of land covering over 16,020 gross acres throughout southeast Saskatchewan. Dundee's working interest in these lands averages 17.5%, resulting in 2,826 net acres to the Company. Dundee's undiscounted net cost of the land is approximately \$306,000 or \$270 per hectare. During 1997, Dundee plans to add to its current land holdings through strategic acquisitions.

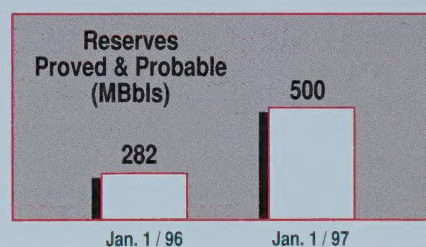
## January 1, 1997 Acreage Totals

	Total Acres		Developed Acres	Undeveloped Acres
	Gross	Net	Net	Net
Arcola	1,311	230	70	160
Service	4,890	878	13	865
Redvers	3,018	528	14	514
Wauchope	3,075	538	-	538
Storthoaks	2,388	418	-	418
Rosebank	858	150	-	150
Bellegarde	320	56	-	56
Ingoldsby	160	28	-	28
<b>Totals</b>	<b>16,020</b>	<b>2,826</b>	<b>97</b>	<b>2,729</b>

## Reserves

Dundee's proven reserves have increased substantially over the last year primarily due to the Company's successful horizontal developmental drilling program on its Arcola property. Dundee now holds a solid reserve base of relatively long-life, high netback production.

Dundee's reserves were evaluated by the independent petroleum engineering firm of APEX Energy Consultants Inc., effective January 1, 1996 and January 1, 1997. The following table summarizes the results of their evaluations.



## Interests in Oil & Gas Reserves and Estimated Present Worth Value

	Company Reserves		Estimated Net Present Value Before Tax at			
	Oil (MBbls)		0%	10%	15%	20%
	Jan 1 / 96	Jan 1 / 97	As at January 1, 1997 (thousands of dollars)			
Proved Producing	112.8	244.0	\$3,998.7	\$2,255.8	\$1,878.3	\$1,619.9
Proved Undeveloped	111.0	141.4	\$2,136.9	\$1,299.6	\$1,050.4	\$862.8
Total Proved	223.8	385.4	\$6,135.6	\$3,555.4	\$2,928.7	\$2,482.7
Probable	58.4	114.9	\$1,614.7	\$895.4	\$698.7	\$558.6
Total Proved & Probable	282.2	500.3	\$7,750.3	\$4,450.8	\$3,627.4	\$3,041.3



## Management's Discussion & Analysis

### Oil and Gas Revenue

Dundee's oil and gas revenues before royalties were \$444,876 for the year ended December 31, 1996 as compared to zero for the previous year. The increase is attributable to oil and gas production from properties acquired effective January 1, 1996 in the Company's "Major Transaction". In 1996, the average selling price for crude oil and natural gas liquids was \$27.72 per barrel and the total barrel of equivalent production was 16,047 barrels (44 Bbls/day).

As a result of drilling completed in the fourth quarter of 1996 and the first quarter of 1997 the Company expects to increase its production volumes and revenues significantly in 1997. Up to March 31, 1997, Dundee participated in the drilling of 5 gross (.7875 net) wells on its properties in Southeast Saskatchewan which increased the Company's net production from 44 Bbls/day to approximately 160 Bbls/day.

### Royalties Paid

Dundee's royalties paid on oil and gas production were \$137,705 for the year ended December 31, 1996. As a percentage of revenue, royalties were 31%, and averaged \$8.58 per barrel.

### Interest

The Company earned interest income of \$5,652 during the year ended December 31, 1996 as compared to \$881 in the prior period. The increase in 1996 results from a larger average cash on hand balance in 1996 due to private placement financings and positive operating cash flows.

### Production Expense

Dundee's oil and gas production expenses were \$114,391 for the year ended December 31, 1996. As a percentage of gross oil and gas revenues production expenses were 26%, and averaged \$7.13 per barrel. In 1997, production expenses are expected to decrease to below \$5 per barrel as a result of improved operational efficiencies.

### General and Administrative

The Company's general and administrative expenses for the year ended December 31, 1996 were \$116,226 as compared to \$2,437 in the prior period. The increase in 1996 is due to several main factors including: professional fees related to the Initial Public Offering of Shares in March, 1996 and completion of the "Major Transaction" in May, 1996; costs of setting up Corporate Offices in August, 1996; and consulting fees related to management contracts for key officers.

### Interest Expense

Dundee's interest expense for the year ended December 31, 1996 was \$18,277 as compared to zero for the previous year. The increase is attributable mainly to accrued interest on the purchase price of \$630,000 for the "Major Transaction". Interest was payable since the effective date of the transaction was January 1, 1996 while the closing date was not until May 15, 1996. A portion of the 1996 interest expense was interest on long term debt. Dundee borrowed \$320,000 in order to close the "Major Transaction" purchase on May 15, 1996 and paid interest of \$5,636 up to the end of August, 1996 when the loan balance was paid in full.

### Depletion and Amortization

The Company's depletion and amortization expense for the year ended December 31, 1996 was \$34,821 as compared to \$78 in the prior period. The increase in 1996 is due to amortization and depletion on assets acquired during 1996. Capital expenditures totalled \$907,585 during fiscal 1996.

### Cash Flow from Operations

Dundee's cash flow for the year ended December 31, 1996 was \$63,929 as compared to a cash deficiency of \$1,556 for the previous year. The increase of \$65,485 is due to the profitability of the Company's oil wells in Southeast Saskatchewan. The wells generated net cash flow of \$192,780 resulting in an average netback of \$12.01 per barrel.

### Liquidity and Capital Resources

The Company's working capital at December 31, 1996 was \$224,986 as compared to \$99,879 at the end of the prior year. The increase of \$125,107 is attributable to several factors including: positive cash flow for the year of \$63,929, and private placement financings of \$750,950 completed subsequent to the "Major Transaction". At December 31, 1996 the Company had an unused line of credit with its bank of \$900,000.

### Capital Expenditures

	1996	1995
Land and lease	\$ 469,005	\$ 0
Drilling and completion	254,156	0
Facilities and equipment	129,624	0
Other fixed assets	54,800	780
<b>Total</b>	<b>\$ 907,585</b>	<b>\$ 780</b>



## Management's / Auditor's Report

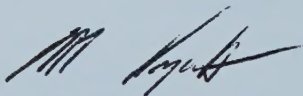
### Management's Report to the Shareholders of Dundee Petroleum Corp.

Management is responsible for the integrity and objectivity of the information contained in this annual report and for the consistency between the financial statements and other financial operating data contained elsewhere in the report. The accompanying financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada using estimates and careful judgement, particularly in those circumstances where transactions affecting a current period are dependent upon future events. The accompanying financial statements have been prepared using policies and procedures established by management and reflect fairly the Company's financial position and results of operations, within reasonable limits of materiality and within the framework of the accounting policies outlined in the notes to the financial statements.

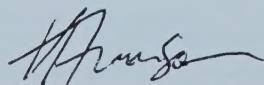
Management has established and maintains a system of internal control which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that financial information is reliable and accurate.

The financial statements have been examined by external auditors appointed by the shareholders. Their examination provides an independent view as to management's discharge of its responsibilities insofar as they relate to the fairness of reported operating results and financial condition.

The Audit Committee of the Board of Directors, has reviewed in detail the financial statements with management and the external auditors. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.



Michael J. Kryczka  
President & Chief Executive Officer



Hugh M. Thomson  
Vice President, Finance & Chief Financial Officer  
Calgary, Alberta, March 21, 1997

### Auditor's Report to the Shareholders of Dundee Petroleum Corp.

I have audited the balance sheets of Dundee Petroleum Corp. as at December 31, 1996 and 1995 and the statements of operations and retained earnings and changes in cash resources for the periods then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and 1995 and the results of its operations and the changes in its cash resources for the periods then ended in accordance with generally accepted accounting principles.



Stan Peloski  
Chartered Accountant

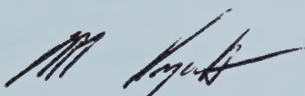
Calgary, Alberta, March 21, 1997




**Dundee Petroleum Corp.**  
**Balance Sheets as at December 31**

	Note	1996	1995
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash		\$ 489,318	\$100,117
Accounts receivable		48,517	82
Prepaid expenses and deposits		10,709	436
		<u>548,544</u>	<u>100,635</u>
<b>CAPITAL ASSETS</b>	3	773,466	702
<b>DEFERRED SHARE ISSUANCE COSTS</b>		-	7,785
		<u>\$1,322,010</u>	<u>\$109,122</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accruals		\$ 323,558	\$ 756
<b>OTHER LIABILITIES</b>		10,000	-
<b>DEFERRED INCOME TAXES</b>		13,000	-
		<u>346,558</u>	<u>756</u>
<b>SHAREHOLDERS' EQUITY</b>			
<b>SHARE CAPITAL</b>	4	960,978	110,000
<b>RETAINED EARNINGS (DEFICIT)</b>		14,474	(1,634)
		<u>975,452</u>	<u>108,366</u>
		<u>\$1,322,010</u>	<u>\$109,122</u>

**APPROVED ON BEHALF OF THE BOARD:**

  
 Director

  
 Director



**Dundee Petroleum Corp.**

**Statements of Operations and Retained Earnings for the Periods Ended December 31**

	Note	1996	1995 (Note 1)
<b>REVENUE</b>			
Petroleum and natural gas sales		\$ 444,876	\$ -
Royalties paid		(137,705)	-
		307,171	-
Interest income		5,652	881
		<u>312,823</u>	<u>881</u>
<b>EXPENSES</b>			
Operating and production		114,391	-
General and administrative	5	116,226	2,437
Interest		18,277	-
Depletion and amortization		34,821	78
		<u>283,715</u>	<u>2,515</u>
<b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>		<b>29,108</b>	<b>(1,634)</b>
<b>DEFERRED INCOME TAXES</b>	6	<b>13,000</b>	<b>-</b>
<b>NET INCOME (LOSS) FOR PERIOD</b>		<b>16,108</b>	<b>(1,634)</b>
<b>DEFICIT, beginning of period</b>		<b>(1,634)</b>	<b>-</b>
<b>RETAINED EARNINGS (DEFICIT), end of period</b>		<b>\$ 14,474</b>	<b>\$(1,634)</b>
<b>INCOME (LOSS) PER SHARE</b>			
Basic		\$ 0.003	\$(0.001)
Fully diluted		\$ 0.003	\$(0.001)



**Dundee Petroleum Corp.**

**Statements of Changes in Cash Resources for the Periods Ended December 31**

	1996	1995 (Note 1)
<b>CASH WAS PROVIDED BY (USED IN)</b>		
<b>OPERATIONS</b>		
Net income (loss)	\$ 16,108	\$ (1,634)
Depletion and amortization	34,821	78
Deferred income taxes	13,000	-
	<u>63,929</u>	<u>(1,556)</u>
Changes in non-cash working capital components related to operations		
Accounts receivable	(48,435)	(82)
Prepaid expenses and deposits	(10,273)	(436)
Accounts payable and accruals	<u>44,965</u>	<u>756</u>
	<u>50,186</u>	<u>(1,318)</u>
<b>FINANCING ACTIVITIES</b>		
Issuance of share capital	968,763	102,215
Income tax benefits renounced on issuance of flow-through shares	<u>(110,000)</u>	<u>-</u>
	<u>858,763</u>	<u>102,215</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of capital assets	(907,585)	(780)
Changes in working capital components related to capital assets	277,837	-
Income tax benefits renounced on issuance of flow-through shares	<u>110,000</u>	<u>-</u>
	<u>(519,748)</u>	<u>(780)</u>
<b>INCREASE IN CASH</b>	<b>389,201</b>	<b>100,117</b>
<b>CASH, beginning of period</b>	<b>100,117</b>	<b>-</b>
<b>CASH, end of period</b>	<b><u>\$489,318</u></b>	<b><u>\$ 100,117</u></b>
<b>OPERATING CASH FLOW (DEFICIENCY) PER SHARE</b>		
Basic	\$ 0.012	\$ (0.001)
Fully diluted	<u>\$ 0.011</u>	<u>\$ (0.001)</u>



## Dundee Petroleum Corp. Notes to Financial Statements, December 31, 1996 and 1995

### 1. The Corporation

Dundee Petroleum Corp. (the Corporation) was incorporated on August 17, 1995, under the *Business Corporations Act (Alberta)*. The Corporation was classified as a Junior Capital Pool corporation until May 14, 1996 when it completed its major transaction (effective January 1, 1996), the acquisition of various petroleum and natural gas properties. The Corporation's principal activity is the exploration for and development of petroleum and natural gas properties.

### 2. Significant Accounting Policies

#### Petroleum and Natural Gas Properties

The Corporation follows the full cost method of accounting for petroleum and natural gas properties whereby all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, that portion of general and administrative expenses which relate to exploration and development activities, lease rentals on non-producing properties and the cost of drilling both productive and non-productive wells. Proceeds received from the disposition of properties are credited against accumulated costs except under circumstances which result in a material change in the rate of depletion, in which case a gain or loss is recorded and reflected in the statement of operations.

Depletion is provided on the unit-of-production method based on estimated proven reserves of petroleum and natural gas before royalties, as determined by independent engineers. Reserves are converted to equivalent units based on their approximate energy content.

Future removal and site restoration costs are estimated and recorded over the expected life of the related property. This provision is classified as other liabilities.

The net book value of the Corporation's petroleum and natural gas properties is limited to the estimated future net revenues from proven reserves based on average product prices and costs for the year, plus the lower of cost or estimated fair market value of unproven properties. This total is reduced by estimated future removal and site restoration costs, general and administrative costs, financing charges and income taxes that will be incurred in earning these revenues.

#### Amortization

Amortization of office equipment is provided using the declining balance method at the rate of 20% per annum.

#### Joint Operations

Substantially all of the Corporation's exploration and development activities are conducted jointly with others and, accordingly, these financial statements reflect only the Corporation's proportionate interest in such activities.

### 3. Capital Assets

	1996			1995		
	Cost	Accumulated Depletion and Amortization	Net Book Value	Cost	Accumulated Depletion and Amortization	Net Book Value
Petroleum and Natural Gas Properties						
Leases and rights	\$469,005	\$13,890	\$455,115	\$ -	\$ -	\$ -
Exploration and development costs	192,737	5,708	187,029	-	-	-
Lease and well equipment	129,624	3,839	125,785	-	-	-
	791,366	23,437	767,929	-	-	-
Office furniture and equipment	6,999	1,462	5,537	780	78	702
	<u>\$798,365</u>	<u>\$24,899</u>	<u>\$773,466</u>	<u>\$ 780</u>	<u>\$ 78</u>	<u>\$ 702</u>

	1996	1995
General and administrative expenses capitalized during period	<u>\$ 10,000</u>	<u>\$ -</u>
Cost of petroleum and natural gas properties excluded from the calculation of depletion	<u>\$ 205,000</u>	<u>\$ -</u>
Net book value of petroleum and natural gas properties not subject to deduction for income tax purposes:		
Renounced pursuant to the issuance of flow-through common shares, described in Note 4	<u>\$ 247,767</u>	<u>\$ -</u>



**Dundee Petroleum Corp. Notes to Financial Statements, December 31, 1996 and 1995****4. Share Capital**

	1996	1995
Authorized		
Unlimited number of voting common shares		
Unlimited number of non-voting common shares		
Unlimited number of preferred shares, issuable in series		
Issued		
8,261,000 voting common shares (1995 - 2,200,000)	\$1,025,950	\$110,000
Costs of issuance	(64,972)	-
	<u>\$ 960,978</u>	<u>\$110,000</u>

Pursuant to the Agency Agreement, the Corporation granted its agent, McDermid St. Lawrence Chisholm Ltd., non-transferrable options to purchase 260,000 common voting shares at \$0.10 per share. The options expire September 22, 1997.

During the period ended December 31, 1996, the Corporation also granted options to various agents, for the purchase of 128,500 voting common shares at \$0.20 per share, of which options for 3,500 shares expire July 12, 1997 and options for 125,000 shares expire September 5, 1997.

The Corporation has established a Stock Option Plan (the Plan) for its directors, officers, employees and consultants and reserved 610,000 voting common shares in respect of the Plan. During the period ended December 31, 1996, the Corporation granted options, under the Plan, for the purchase of shares as follows:

440,000 shares at \$0.10 per share, expiring December 31, 1999

130,000 shares at \$0.20 per share, expiring December 31, 1999

Share capital was raised as follows:

	1996		1995	
	Number of Shares	Consideration	Number of Shares	Consideration
Seed capital	-	\$ -	2,200,000	\$110,000
Initial public offering	2,600,000	260,000	-	-
Private share offerings				
Flow-through	3,005,000	651,500	-	-
Equity	306,000	99,450	-	-
Exercise of options by agents	100,000	10,000	-	-
Exercise of options under stock option plan	50,000	5,000	-	-
	<u>6,061,000</u>	<u>1,025,950</u>	<u>2,200,000</u>	<u>110,000</u>
Adjustment for income tax benefits renounced on issuance of Flow-through common shares		(110,000)		-
		<u>\$ 915,950</u>		<u>\$110,000</u>
Costs of issuance		<u>\$ 64,972</u>		<u>\$ -</u>

**Flow-through shares**

Under the provisions of the Income Tax Act (the "Act"), a corporation may issue shares, the proceeds of which are used to incur "qualifying expenditures" as defined in the Act. The subscriber for these shares, and not the Corporation, is entitled to deduct these "qualifying expenditures" for Income Tax purposes.

**Options**

At December 31, 1996 the following options to purchase voting common shares were outstanding:

**Agents**

Options for 3,500 shares at \$0.20 per share, expiring July 12, 1997

Options for 125,000 shares at \$0.20 per share, expiring September 5, 1997

Options for 160,000 shares at \$0.10 per share, expiring September 22, 1997

**Directors, Officers and Consultants**

Options for 390,000 shares at \$0.10 per share, expiring December 31, 1999

Options for 130,000 shares at \$0.20 per share, expiring December 31, 1999



**Dundee Petroleum Corp. Notes to Financial Statements, December 31, 1996 and 1995****5. Related Party Transactions**

The following related party transactions occurred during the periods:

- (a) A total of \$38,557 (1995 - \$0) was paid to officers and directors of the Corporation for management and consulting services.
- (b) A total of \$37,793 (1995 - \$0), including fees and disbursements, was paid to a firm of solicitors in which an officer of the Corporation is a partner.

**6. Income Taxes**

The provision for income taxes differs from the result which would have been obtained by applying the combined federal and provincial tax rates (approximately 45%) to the Corporation's income (loss) before income taxes. This difference results from the following items:

	1996	1995
Expected income taxes	\$ 13,000	\$ (1,000)
Non-deductible Crown payments	33,000	-
Resource allowance	(31,000)	-
Other	(2,000)	1,000
	<u>\$ 13,000</u>	<u>\$ -</u>

At December 31, 1996, the Corporation has losses for income tax purposes, available to reduce future taxable incomes of approximately \$37,000, which expire as follows:

in 2002	\$3,000
in 2003	\$34,000

The potential income tax benefits related to these losses have not been recognized in the accounts.

At December 31, 1996, the Corporation has the following income tax pools, available to reduce future taxable incomes at the annual rates indicated:

	Rate	
Canadian oil and gas property expense	10%	\$ 422,104
Canadian development expense	30%	3,739
Undepreciated capital costs	20% and 25%	119,619
		<u>\$ 545,462</u>

**7. Commitment**

The Corporation is committed to the following minimum annual payments, pursuant to an operating lease for premises which expires July 31, 1999:

1997	\$6,685
1998	\$6,685
1999	\$3,900

**8. Subsequent Events**

Subsequent to December 31, 1996:

- (a) The Corporation has established base compensation, for its officers, of \$118,800 per annum (\$9,900 per month), subject to a quarterly review based upon operating results.
- (b) The Corporation has granted options, pursuant to the Stock Option Plan, for the purchase of 381,250 voting common shares, as follows:
  - Options for 356,250 shares at \$0.38 per share, expiring January 8, 2002
  - Options for 25,000 shares at \$0.53 per share, expiring January 28, 2002
- (c) The Corporation has issued 365,834 Flow-through voting common shares for proceeds of \$109,750.
- (d) Holders of 150,000 options under the Stock Option Plan and 125,000 options to agents have exercised their options, resulting in proceeds of \$40,000.

## Corporate Information



Management (left to right): Harry Issler, Kam Fard, Hugh Thomson, Michael Kryczka

## Notice of Meeting

The Annual General Meeting of the shareholders of Dundee Petroleum Corp. will be held on May 15, 1997, at 4:00 pm at The Meeting Room, 18th floor, Alberta Stock Exchange Tower, 300 - 5th Avenue, S.W., Calgary, Alberta.

Shareholders unable to attend are encouraged to complete and return the accompanying form of proxy.

## Abbreviations

Bbl	Barrel
MBbls	Thousand barrels
Bbls/day	Barrels of oil per day
BOE/D	Barrels of oil equivalent per day
NGL	Natural gas liquids

### Head Office:

1480, 717 - 7 Avenue S.W.  
Calgary, AB T2P 0Z3

### Officers:

Michael J. Kryczka - President & Chief Executive Officer  
Harry Issler - Vice President, Exploration  
Kam A. Fard - Vice President, Production  
Hugh M. Thomson - Vice President, Finance  
Thomas W. Robinson - Secretary

### Directors:

Michael J. Kryczka - Chairman  
David M. Johnson  
Ross P. Thurston  
Hugh M. Thomson  
Wayne M. Newhouse

### Banking:

Canadian Western Bank

### Auditors:

Stan Peloski, Chartered Accountant

### Legal Counsel:

Johnston, Robinson, Clark

### Engineering:

APEX Energy Consultants Inc.

### Common Shares Listed:

Alberta Stock Exchange  
Symbol: DPC





**DUNDEE PETROLEUM CORP.**

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